



INTERNAL AUDIT SUBSTANTIVE TESTING PURCHASING CARDS

October 7, 2004

Roanoke City Council Audit Committee
Roanoke, Virginia

We have completed our audit of purchasing card transactions. Our audit was performed in accordance with generally accepted government auditing standards.

BACKGROUND

In early 2001, the city began using purchasing cards to simplify the procurement process for small dollar purchases. The card allowed employees to make purchases without having to complete purchase orders and receivers. This correspondingly reduced the number of purchase orders processed by the Purchasing division and the number of checks issued by the Department of Finance.

The city's purchasing cards are issued through MBNA as part of the VISA network. The typical card can be used for purchases of up to \$2,500 per transaction and \$15,000 per month. Departments and divisions can request an adjustment to these limits if there is a justifiable need. The city is averaging approximately 2,700 transactions each month with an average combined value of \$575,000. There are 330 active purchasing cards used by approximately 55 program areas.

Employees are responsible for obtaining a receipt for each purchase. Supervisors and managers are responsible for overseeing employee purchases and ensuring purchases are appropriate and comply with city policies. Departments and divisions are responsible for compiling receipts and verifying the accuracy of monthly billing statements from MBNA. The Department of Finance downloads the transactions for all city program areas from the MBNA website each month. Finance provides each area with an Excel spreadsheet listing the area's transactions and providing a column for the division or department to input the account code to be charged for each expense. The completed spreadsheet is given back to Finance for uploading into the city's accounting system. Program areas also receive a monthly statement from MBNA and are responsible for verifying the accuracy of the statement. The managers or a designee are responsible for signing the monthly statement and forwarding it with supporting receipts to Finance. If a program area does not have a receipt, an affidavit for the purchase must be filled out and submitted.

The Purchasing division assumed increased responsibilities for administering the procurement card program in January 2004. The Purchasing division provided a training

session in February 2004 to refresh cardholders' knowledge of the policies and procedures governing the use of purchasing cards. The training was required for all cardholders, as well as employees who authorize transactions. Employees must participate in the training before a purchasing card will be issued to them.

PURPOSE

The purpose of this audit was to evaluate the level of compliance with city policies and procedures governing the use of purchasing cards.

SCOPE

Our audit focused on procedures in place as of March 31, 2004 and transactions occurring from April 1, 2003 through March 31, 2004.

METHODOLOGY

We reviewed 32,167 purchasing card transactions totaling over \$6.9 million. We browsed the transactions to gain an understanding of general purchasing trends. We selected transactions for testing based on various criteria including the vendor, the cardholder, and the amounts. We sorted data to identify clusters of payments that might indicate attempts to circumvent transaction limits. We used interval samples to select transactions to test compliance with approval requirements, spending limits, and documentation requirements. We used probability analysis to identify amounts occurring more frequently than expected. We also merged payment voucher and purchasing card data and ran analyses to identify probable duplicate payments. In each test, we reviewed the supporting documentation for individual charges to determine if the purchases were adequately supported, approved, and for legitimate business purposes. If warranted, we contacted cardholders and managers for further explanation of charges.

RESULTS

Based on the results of our test work, we believe the card controls established through MBNA are functioning effectively. Card controls include transaction limits and merchant restrictions that prevent cards from being used at the point of sale. We also found that cards for terminated employees were deactivated. We noted a small number of duplicate payments that were processed and later recovered by the departments and divisions. Given the small number of incidents and the recoveries, we did not note this as a material issue. We identified two issues that require action, as noted below.

Finding 01 – Purchase Documentation

In our test work, we noted that receipts from vendors such as Wal-Mart, Kroger, Ritz Camera, and Barnes & Noble did not include notations or attachments to explain the business purpose requiring the purchase. We also noted that receipts for meals at local restaurants oftentimes did not include notations explaining the business purpose of the

meal and the people who received the meals. Such pertinent information is necessary to ensure that employees and management both understand the nature of purchases and approve of such purchases as a necessary business expense. The existing purchasing card program guidelines do not specifically state that this type of information is required to be documented and included with receipts.

Recommendation 01 – Purchase Documentation

We recommend that the purchasing card program guidelines be revised to address this issue. The guidelines should require that information regarding the nature of each purchase be documented, either on the receipt or on an attachment. This should include a listing of those persons who benefit from the purchase, such as persons receiving meals, if applicable.

Management Response 01 – Purchase Documentation

We concur with this finding and the resolution thereof. We have specifically addressed this issue in our training sessions with all city staff. As a result, there has been a significant change in the notations on receipts. The purchasing guidelines will be further revised to provide program areas with specific instructions on this issue.

Finding 02 – Affidavits

Current purchasing card program guidelines allow the use of affidavits when receipts cannot be located to support a purchase. The affidavit requires an explanation of what was purchased and why a receipt was not available. In the course of our test work, we noted 16 purchases that did not have supporting receipts or affidavits. This increases the risk that the city will be billed for expenses it did not incur or that were inappropriate.

We also noticed that affidavits were being used frequently in place of receipts. Because the guidelines provide for the use of affidavits, we did not initially take exception to their use as supporting documents for purchases. However, after considering the frequency of their use, the circumstances under which they were being used, and the limited value of the information being provided on them, we concluded that a control concern exists related to the overuse of affidavits. We believe that departments/divisions are using the affidavits without undertaking adequate efforts to obtain receipts and research the validity of charges.

Recommendation 02 – Affidavits

We recommend that the purchasing card program guidelines be revised to require that departments and divisions submit original receipts to Finance with their monthly statements. In the event that a receipt is lost, these program areas should have to contact the vendors and request a duplicate receipt. Employees that persistently neglect to obtain receipts or lose receipts should lose the privilege of using a

purchasing card .

Management Response 02 - Affidavits

We concur with this finding and agree that our current policy should be revised. We will revise the purchasing card program guidelines to require that departments and divisions submit original receipts to Finance with their monthly statements. In the event that a receipt is lost, program areas should contact the vendors and request a duplicate receipt. As a last resort, the affidavit form should be used to document the efforts which have been made to obtain a duplicate receipt and the circumstances surrounding any instance where a vendor could not or would not provide a duplicate invoice. As part of its monthly review of cardholder statements, the Department of Finance will monitor ongoing trends related to cardholders with recurring violations. If deemed necessary, and in accordance with current purchasing card policy, an employee or department/division that consistently fails to comply with these procedures will ultimately lose card privileges.

We noted other less significant issues related to the administration of the purchasing card program which we communicated to management by memo.

CONCLUSION

Based on the results of our audit work, we believe that procedures could be strengthened to ensure purchases are appropriate, authorized, and comply with city policies and procedures.

We would like to thank the Department of Finance, the Purchasing division, and those program areas subjected to testing for their cooperation and assistance during the audit.

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